November 1999

NOVA SCOTIA
Department of Finance

Nova Scotia Economic Outlook Report

A special report on the provincial economy by the Nova Scotia Department of Finance

Outlook

"Statistic's Canada's latest revisions to Provincial GDP growth estimates show Nova Scotia's economy has been in a strong growth phase since 1996"

Minister of Finance, Neil LeBlanc

1998 Results & 1999 Forecast

Statistics Canada has confirmed that Nova Scotia's economy has made a significant recovery, after virtually no growth in 1996. The agency's latest revisions to GDP numbers show economic growth picked up much more strongly in 1997 than earlier thought.

"Residential Construction is set to increase 34% in 1999 compared to 1998."

Those earlier estimates put growth at rates of 0.6% in 1996 and 1.8% in 1997. The revised numbers show 0.1% in 1996, jumping to 2.8% in 1997 and maintaining that pace throughout 1998 with a preliminary estimate of 2.9% growth.

The total growth over the three-year period is in line with Nova Scotia Department of Finance economic forecasts released for fiscal 1999-2000 in October. The budget forecast 6% growth over the period 1996-1998, while the latest Statistics Canada results show 5.8% growth.

The GDP growth rates mirror the employment changes over the same period. Employment growth in the province was down for much of 1996, but has been growing steadily since November of that year. The seasonally adjusted employment numbers for October 1999 show a 7.7% increase in employment or more than 29,000 people over this three-year period.

The latest Labour Force Survey shows an increase in the size of the labour force over the past year on a seasonally adjusted basis (7,800 Oct.98-Oct.99) and an even greater increase in employment (10,400 Oct.98-Oct.99). As a result, the seasonally adjusted unemployment rate fell to 9.9%, which is in line with budget projections.

The employment increase in 1998 and 1999 is partly due to the construction and engineering impact of the Sable Gas Projects. The projects have successfully completed the offshore production platforms, the undersea pipeline to shore at Goldboro in Guysborough County, and gas processing and fractionation plants, and the transmission pipeline.

The impacts have been felt across several sectors including Construction, manufacturing, Transportation, Wholesale Trade and Business Services.

Tourism growth over the past two seasons has helped spread economic growth around much of the province. By the end of October automobile passenger visits were up by 13% for the year. The latest statistics for air visits shows an increase of 21% overall, with very strong growth coming from the United States and Western Canada.

Manufacturing shipments were up 7.6% for the first seven months of 1999. The main sources of the increase are paper products, lumber and railcars. Residential housing construction is rebounding from a slow year in 1998, and forecasts call for an increase of 34% in 1999 for a total of 4,200 housing units.

As a result, economic growth in the internal (domestic) economy of the province has been very strong. The most recent Statistics Canada numbers show final domestic demand growing at 4.8% (1997) and 4.9 % (1998) . This points to an underlying strength in both consumer and business confidence in the province. Final domestic demand is comprised of consumer spending on goods and services, investment spending--which is undertaken chiefly by the private sector, and government spending on goods and services.

The external sector (exports less imports) exerted a drag on the province's growth in 1997 and 1998. In large part, this was attributable to the hefty import content associated with the development phase of the two largest, individual investment projects in the province's history: Stora's supercalendered paper mill; and the Sable Offshore Energy Project. Going forward, their impact on the province's economic growth will be more positive, with the shift to the production phase and the export of their products.

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2000 Outlook

The majority of private-sector forecasters continue to predict strong economic growth in Nova Scotia through 2000, even before accounting for natural gas distribution construction activity.

ECONOMIC GROWTH FORECASTS FOR 2000

	NS	CANADA
CIBC	3.0	2.7
ROYAL BANK	2.2	2.8
SCOTIABANK	3.0	3.4
APEC	2.9	3.0
CONFERENCE BOARD	1.1	3.1

SOURCE: DEPARTMENT OF FINANCE SURVEY OF FORECASTERS

GROSS DOMESTIC PRODUCT AT 92 PRICES
($ MILLION)

1994	1995	1996	1997	1998
18,256	18,578	18,602	19,124	19,674
	1.8%	0.1%	2.8%	2.9%

SOURCE: STATISTICS CANADA
(CANSIM, MATRICES 9029-9040

For the year 2000, natural gas continues to be the driving force in economic growth for Nova Scotia. The Utility and Review Board is expected to deliver its report to cabinet on who the recommended franchisee(s) should be for the distribution of natural gas throughout the province.

A final decision will be made by cabinet with construction set to begin in the spring. The value of this stage is estimated to be in the $600 million to $1.0 billion range, depending upon the anticipated degree of market penetration by natural gas.

"THE NOVA SCOTIA ECONOMY IS EXPECTED TO CONTINUE ON ITS GROWTH TRACK IN 2000,, ALTHOUGH THE PAUSE IN ENERGY CONSTRUCTION PROJECTS OVER THE WINTER AND CHALLENGES IN INDUSTRIAL CAPE BRETON WILL RESULT IN RELATIVELY FLAT NET EMPLOYMENT GROWTH."

As a result of these, and other projects, capital investment in 2000 in Nova Scotia is expected to remain consistent with the better than average rate of spending seen in 1997, although down from the peak levels reached in 1998 and 1999.

Another major development related to the offshore will be stepped up exploration efforts. Approximately $700 million in tendered exploration commitments have been awarded by the government, and work will be carried out over the next four to five years.

Some seismic work has been completed, and exploration drilling will be the next stage. Pan Canadian has already announced it will be drilling an exploration well from the Cohasset-Panuke oil platform to delineate earlier encouraging results.

A favourable exchange rate between the Canadian and US dollars, and the continued strength of both economies is expected to sustain export values in manufactured and raw products throughout 2000. This will be augmented by new exports of natural gas and natural gas liquids.

Retail growth continues to show the strength of consumer demand with the 4.0% growth forecast by the Department of Finance for 1999 expected to continue at 3.8% in 2000.

New motor vehicle sales continue to be a source of strength in the retail sector. Strength in the housing construction sector has also helped sales of durable household goods. Continued strength in this sector is forecast for the year 2000.

The Nova Scotia labour force has been growing recently as the strong job creation record encourages more people to look for work. This growth is particularly strong in the Halifax Region, but growth has also occurred throughout mainland Nova Scotia. The unemployment rate for mainland Nova Scotia has been in the single digit range for much of 1999.

The exception has been Cape Breton, where the labour force has been shrinking, and unemployment rising in the past year. For 2000, the expected sale or closure of the Sydney Steel Mill put additional pressure on the economy as one of the island's federally owned Devco mines is slated to close a year earlier than expected and the remaining coal mine is expected to be privatized.

As a result of the pause in energy construction work and the pressures in Cape Breton, net job growth in Nova Scotia is expected to be relatively flat in 2000.

Nevertheless, the Nova Scotia Department of Finance believes the other positive developments lead by the value-added generated by production from the Sable Offshore Energy Project, will be sufficient to see an increase in economic growth in lines with the budget forecast of 3.0%. This view is consistent with that of several recent private sector forecasts.

The Nova Scotia Department of Finance publishes a variety of economic and financial accountability documents each year. Notices about the release of this and related information may be received by subscribing to the Department's e-mail alert system, NSFinanceNews. For details on how to receive e-mail notifications on a timely basis, please visit our Internet Site at: http://www.gov.ns.ca/finance and then click on FinanceNews button.